

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Health and Human Services

Utah Department of Health
Children's Health Insurance Program (CHIP)

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1.0 Department of Health - Children's Health Insurance Program (CHIP)

Summary

The 1998 Legislature passed House Bill 137, which established the Children's Health Insurance Program (CHIP) for the State. This program provides health insurance coverage to uninsured children up to age 19 living in families whose income is less than 200 percent of the Federal Poverty Levels. The program receives approximately 80 percent of its funding from Federal Funds, but requires a state match, which, beginning in FY 2001 comes from proceeds from the Master Settlement Agreement between the State and tobacco companies. The 2003 Legislature increased the funding from the Tobacco Settlement Account from \$5.5 million to \$7 million to allow for the expansion of the program to cover more children and to restore dental services.

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
Federal Funds	28,903,700		28,903,700
Dedicated Credits Revenue	650,000		650,000
GFR - Tobacco Settlement	7,002,800		7,002,800
Transfers	135,400		135,400
Total	\$36,691,900	\$0	\$36,691,900
Programs			
Children's Health Insurance Program	36,691,900		36,691,900
Total	\$36,691,900	\$0	\$36,691,900
FTE/Other			
Total FTE	8.5	0.0	8.5

2.0 Issues: Children's Health Insurance Program (CHIP)

2.01 Administrative Cost Intent Language

The 2003 Legislature approved the following intent language to be implemented by this division:

It is the intent of the Legislature that the budget analysis for the Department of Health be presented with a breakdown between costs of administration and services delivered and the number of citizens served and categorized by cost and type of service.

The Department reports that the CHIP budget is 10.2 percent administrative, 0.1 percent indirect services, and 89.7 percent direct services. The following table shows the allocation of costs between administrative, indirect services, and direct services.

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)				
ADMINISTRATIVE and SERVICE COSTS				
FY 2003 Actual Expenditures				
	Admin- <u>istration</u>	Indirect <u>Services</u>	Direct <u>Services</u>	<u>Total</u>
CHIP	\$3,002,457	\$39,300	\$26,507,079	\$29,548,836
	10.2%	0.1%	89.7%	
Total	\$3,002,457	\$39,300	\$26,507,079	\$29,548,836
	10.2%	0.1%	89.7%	

Source: Department of Health

The direct services include the medical and dental services provided to the children in the CHIP.

2.02 Legislative Auditor's Concerns over CHIP Vaccine Payments

In a November 2003 audit, the Legislative Auditor General reported that CHIP frequently pays twice for vaccines. The report states that CHIP purchases vaccine from the federal government at a reduced rate then distributes that vaccine to medical providers throughout the state. Providers sometimes bill PEHP for the costs of the pre-paid vaccines. CHIP pays the costs of the contract with PEHP, which include the costs of vaccine it has already purchased and provided to the doctor. The LAG estimates the CHIP pays nearly \$400,000 per year for vaccines it has already purchased.

In its response to the audit, CHIP agrees that the current process for paying immunization claims can be improved, although it disputes the amount of money involved. According to the audit, "CHIP will work with PEHP to implement tighter controls in the payment of claims and to educate physicians and health clinics on proper immunization billing practices."

3.1 Children's Health Insurance Program

Recommendation

The Analyst recommends funding in the amount of \$36,691,900 for FY 2005 to continue the health insurance coverage for those children who have enrolled in CHIP. The recommendation is based on the projected FY 2005 enrollment level and the current benefit structure.

The major funding source is Federal Funds, which will provide approximately \$28.9 million. The State's required match is expected at \$7.0 million. This \$7 million comes from funds received by the State in conjunction with the Master Settlement Agreement. (UCA 63-97-201 (4(a))). In addition, co-payments, instituted during the past year, and premiums are projected to provide another \$650,000 to help in the funding of the program.

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Federal Funds	21,936,718	28,924,300	28,903,700	(20,600)
Dedicated Credits Revenue	451,970	650,000	650,000	
GFR - Tobacco Settlement	5,496,800	7,003,200	7,002,800	(400)
Transfers	1,663,348	135,400	135,400	
Total	\$29,548,836	\$36,712,900	\$36,691,900	(\$21,000)
Expenditures				
Personal Services	538,317	486,772	475,000	(11,772)
In-State Travel	5,560	3,400	1,000	(2,400)
Out of State Travel	8,963	100	100	
Current Expense	750,325	415,228	414,000	(1,228)
DP Current Expense	9,875	5,000	4,700	(300)
Other Charges/Pass Thru	28,235,796	35,802,400	35,797,100	(5,300)
Total	\$29,548,836	\$36,712,900	\$36,691,900	(\$21,000)
FTE/Other				
Total FTE	12.3	8.8	8.5	(0.3)

*Non-state funds as estimated by agency

Purpose

The Federal government created the State Children's Health Insurance Initiative (Title XXI) as a part of the Balanced Budget Act of 1997. The purpose of this act is to provide health insurance to children who (1) are age 18 or under, (2) live in families with incomes below 200 percent of the Federal Poverty Level, (3) are not eligible for Medicaid, and (4) are uninsured.

During the 1998 Legislative session, the Legislature passed House Bill 137 which established the Children's Health Insurance Program for Utah.

CHIP Funding

The major portion of the funding for CHIP comes from Federal Funds. The authorized level of Federal Funds is tied to the State's Medicaid rate, but at an enriched level. Because the State of Utah has a relatively high Medicaid rate, the CHIP services match rate is also fairly high (approximately 80 percent), with the State putting up the balance of 20 percent. An assessment levied on hospitals in the State was established during the 1998 Legislature to provide the necessary revenue stream for the State's match requirement. This revenue source helped to fund the CHIP in FY 1999. Beginning in FY 2000, the revenue source was switched to the Tobacco Settlement Restricted Account and capped at \$5.5 million. Last year, the Legislature authorized the State funding level to be increased by \$1.5 million to \$7 million, increasing the federal funds by \$6 million.

The FY 2003 cost for the program is approximately \$95 per member per month for both health and dental coverage. The FY 2004 cost is expected to be \$105 per member per month.

CHIP Benefit Package

The benefit package for the CHIP is based on the benefit package for public employees, but emphasizes prevention. Well-child exams and immunizations are covered at 100 percent. In FY 2002, dental services were eliminated, except for preventative dental procedures, due to an increase in enrollment. With the increased funding from the 2003 Legislature, dental services were restored.

Some services require co-payments, which vary, depending on the family's income level.

Enrollment began the first part of August 1998. Through mid-December 2003, there were 27,319 children enrolled - about 63 percent of whom are in families with incomes below 150 percent of poverty (Plan A), with the other 37 percent from families with incomes between 150 and 200 percent (Plan B). Approximately 40 percent of the enrolled children come from rural areas and 60 percent from urban areas.

Since the inception of CHIP, 70,610 children have been enrolled. The difference between this figure and the current enrollment of 27,319 indicates that a significant number are enrolled only temporarily – until other medical insurance coverage is obtained for the family. Approximately 1/3 of the children leaving CHIP do so after enrolling in an employer-sponsored insurance plan, 18 percent were enrolled in Medicaid, 3 percent moved or could not be located, and the remaining 16 percent later exceeded income limitations.

Over the past few years, CHIP has had a few open enrollment periods, where funded slots were vacant through attrition. These open enrollments have allowed new children to become enrolled in the program.

**Administration/
Service Cost
Breakdown Intent
Language**

The 2003 Legislature approved this item of intent language for this program:

It is the intent of the Legislature that the budget analysis for the Department of Health be presented with a breakdown between costs of administration and services delivered and the number of citizens served and categorized by cost and type of service.

The Department reports that this budget is 10.2 percent administration and 89.7 percent direct services.

The direct services expenditures consist of the health care services funded from the CHIP for the children of the State.

4.0 Additional Information: Children's Health Insurance Program (CHIP)

4.1 Funding History

	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated*	Analyst
Federal Funds	20,159,054	24,026,973	21,936,718	28,924,300	28,903,700
Dedicated Credits Revenue		517,046	451,970	650,000	650,000
GFR - Tobacco Settlement	5,500,000	5,495,800	5,496,800	7,003,200	7,002,800
Transfers	(1,416,587)	105,006	1,663,348	135,400	135,400
Lapsing Balance	(615,711)	(39)			
Total	\$23,626,756	\$30,144,786	\$29,548,836	\$36,712,900	\$36,691,900
Programs					
Children's Health Insurance Program	23,626,756	30,144,786	29,548,836	36,712,900	36,691,900
Total	\$23,626,756	\$30,144,786	\$29,548,836	\$36,712,900	\$36,691,900
Expenditures					
Personal Services	242,836	566,310	538,317	486,772	475,000
In-State Travel	3,000	2,914	5,560	3,400	1,000
Out of State Travel	3,039	11,034	8,963	100	100
Current Expense	346,593	666,583	750,325	415,228	414,000
DP Current Expense	16,383	19,650	9,875	5,000	4,700
DP Capital Outlay		29,700			
Other Charges/Pass Thru	23,014,905	28,848,595	28,235,796	35,802,400	35,797,100
Total	\$23,626,756	\$30,144,786	\$29,548,836	\$36,712,900	\$36,691,900
FTE/Other					
Total FTE	3.5	7.2	12.3	8.8	8.5

*Non-state funds as estimated by agency.

4.3 Federal

Funds

Program		FY 2003 Actual	FY 2004 Estimated	FY 2005 Analyst
Children's Health Insurance Program Title XXI CHIP	Federal	\$21,502,207	\$28,905,200	\$28,903,700
	Required State Match*	4,560,618	6,130,793	6,130,475
	Total	26,062,825	35,035,993	35,034,175
Children's Health Insurance Program Other Grants	Federal	434,511	19,100	
	Required State Match*	92,160	4,051	
	Total	526,671	23,151	0
Federal		21,936,718	28,924,300	28,903,700
Required State Match		4,652,778	6,134,844	6,130,475
Total		\$26,589,496	\$35,059,144	\$35,034,175

* The Required State Match is funded from proceeds from the Tobacco Settlement Account.